

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

In the matter of

Request for Review by Centennial  
Communications Corp. of Decision of the  
Universal Service Administrator

CC Docket No. 96-45  
CC Docket No. 00-256

**REPLY COMMENTS OF CENTENNIAL COMMUNICATIONS CORP.**

Centennial Communications Corp. ("Centennial")<sup>1</sup> hereby replies to the comments filed in this matter on July 27, 2007.

This matter concerns the proper interpretation of the Commission's universal service rules governing the Interstate Common Line Support ("ICLS") and Long Term Support ("LTS") programs as they relate to the Commonwealth of Puerto Rico in 2004. Broadly speaking, Centennial has asserted (a) that the Universal Service Administrative Company ("USAC") misapplied the rules governing those programs, and (b) that, if the rules were properly applied, then in light of the specific circumstances of Centennial's operations in Puerto Rico during 2004, the Commission should waive the portions of the rules that would otherwise call for recoupment of the funds that Centennial received at that time.

Neither Puerto Rico Telephone Company ("PRTC"), the ILEC in Puerto Rico, nor any other Puerto Rico carrier, filed comments on Centennial's presentation. Instead, the only comments were from some groups representing small ILEC recipients of universal service funding in the domestic United States.<sup>2</sup> On the merits, the Small ILECs do not address any of

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<sup>1</sup> The specific Centennial entity certified as an eligible telecommunications carrier ("ETC"), and receiving support relevant to this appeal, is Centennial Puerto Rico Operations Corp.

<sup>2</sup> Comments of the Western Telecommunications Alliance and the Organization for the Promotion and Advancement of Small Telecommunications Companies and the Independent Telephone and Telecommunications Alliance (filed July 27, 2007) ("Small ILEC Comments").

Centennial's substantive discussion, either of why USAC misapplied the Commission's rules or why, if the rules were properly applied, they should be waived in this case. Instead, the Small ILEC Comments present a few paragraphs in opposition to the "identical support rule," (47 C.F.R. §§ 54.307(a) and 54.901(b)) under which a competitive eligible telecommunications carrier ("CETC") receives the same per-line universal service support as the ILEC with which it competes. *See* Small ILEC Comments at 2-3.

This proceeding does not involve an analysis of the wisdom of the identical support rule. That rule has been in effect for a decade; it was in effect in 2004 (the period during which the underlying issues arose); and it is in effect today. This proceeding involves, principally, an analysis of how the termination of the LTS program on July 1, 2004 relates to the ICLS program's true-up rules (47 C.F.R. §§ 54.903(a)(4), (b)(3)), and to the meaning of the rules' requirement that true-ups be based on "actual" data for a "relevant period" (including both the impact of the LTS termination and the line count data used to convert PRTC ICLS support to amounts for Centennial). The Commission may safely and properly give the Small ILEC Comments no weight, because they do not address the issues at hand.

That said, some of the Small ILECs' baseless allegations should be rebutted. Notably, they claim that Centennial did not incur any of the "actual costs," and did not make "any of the actual investments and expenditures," upon which PRTC's ICLS payments were based. Small ILEC Comments at 2. This is in one sense literally true – Centennial's actual – and substantial – investments and expenditures are not used in calculating its universal service receipts. But in a more meaningful sense, the Small ILECs' claims are grossly misleading.

The implication of their claim is that Centennial sat on its hands as the checks from USAC rolled in, while providing no benefit to the intended beneficiaries of the universal service

program. That is absurd. Without considering USAC's erroneous recoupment decision, Centennial received roughly \$10 million in ICLS high-cost support for Puerto Rico in calendar 2004. During Centennial's 2005 fiscal year (running from June 1, 2004 through May 31, 2005), Centennial spent approximately \$85,000,000 in capital expenditures in its Puerto Rico operations, to expand and improve its telecommunications networks, including in the categories of cell sites, network equipment, and switching equipment – the essential elements needed to actually provide service to customers. During that period, Centennial added approximately 60 new cell sites to its Puerto Rico network. Also during that period, Centennial was undertaking a 100% network replacement and upgrade – completed in July 2005 – that converted the entire network to 100% “3G” technology, as well as adding so-called EV-DO technology to the system. These substantial network investments and upgrades translate directly and unequivocally into more robust, more reliable, more feature-rich – in a word, simply “better” – service for Centennial's hundreds of thousands of basic wireless service customers in Puerto Rico. This is exactly what high-cost universal service support is supposed to promote and encourage.

Moreover, Centennial's Puerto Rico business was growing at that time (and continues to grow). So, the investment described above does not just maintain an existing system; it represents the provision of more, new, and better service to Puerto Rico residents. Any implication that Centennial “took the money and ran” – the point of the Small ILECs' innuendo – is ridiculous. Centennial took the money and poured it into the expansion and maintenance of its network in Puerto Rico, which, again, is exactly what it was supposed to do – and, indeed, what it is required by the Commission's rules to certify that it has done.

From this perspective, part of the reason that USAC's challenged decision is so unfair, as a policy matter, is that it is impossible for Centennial to “uninvest” the money in order to give it

back. PRTC, the Puerto Rico ILEC was not, in any meaningful sense, growing its basic landline network in Puerto Rico during this time. To the contrary, it was losing lines to Centennial and others, and as far as Centennial can tell was (and still is) focusing its investment efforts on meeting the needs of high-end business customers. If PRTC has to give money back to USAC, that may affect PRTC's short-term cash position but does not in any realistic way affect the network it uses to serve the individual consumer customers who are (or should be) the focus of universal service support. Centennial, however, remains in a growth mode, with capital continuing to flow into ongoing network expansion and improvement.<sup>3</sup> Giving money back to USAC, for Centennial, means notably less network growth, and less robust services for consumers, than would otherwise be the case.

Moreover, as Centennial observed in its initial filing, Puerto Rico is unique in the United States in its extremely low landline penetration. The level of landline penetration in Puerto Rico is less than 70%, the lowest in the nation.<sup>4</sup> It is all very well for the Small ILECs – who, we assume, probably serve upwards of 90% of the homes in their respective territories – to pontificate about how unfair it is to give universal service payments to wireless carriers. On some level, they have succeeded at providing universal service in their home territories, and so may, sincerely, not see why the universal service system should subsidize their competitors. But their entire policy argument founders in Puerto Rico, where the ILEC has *failed* at providing

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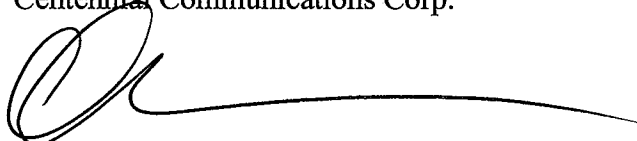
<sup>3</sup> Over the past five years, Centennial has spent over \$350 million on capital expenditures in Puerto Rico and has doubled the number of cell sites it uses to provide wireless service to its approximately 400,000 wireless customers.

<sup>4</sup> Centennial Request for Review at 30. See Letter from Nancy Victory to Marlene Dortch dated December 12, 2006, *ex parte* presentation in CC Docket Nos. 96-45 and 05-337 (attachment at 1) (survey shows fixed line service available in only 68.7% of households).

universal service. Puerto Rico is probably the place in all of the country where it makes the most sense to direct universal service dollars to non-ILECs like Centennial.<sup>5</sup>

For the reasons laid out in detail in Centennial's Request for Review, the Commission should set aside USAC's interpretation of the ICLS true-up rules for Puerto Rico for 2004 or, in the alternative, waive those rules in Centennial's case. The filing by the Small ILECs contains generic anti-CETC rhetoric but provides no analysis of the actual legal, regulatory and policy issues relevant to this case. The Commission, therefore, should give those comments no weight in its consideration of this matter.

Respectfully submitted,  
Centennial Communications Corp.



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<sup>5</sup> In fact, there are good reasons, in general, for the universal service system to provide the same subsidies to competitors as are provided to ILECs. If the ILEC can only provide affordable service and achieve high penetration with subsidies, then providing those same subsidies to competitors puts the firms on an equal footing in the marketplace. If – as seems to be occurring – the result of that competition is that the traditional provider loses ground to the new firm, that means that the new firm is more efficient and should continue to be rewarded. What *doesn't* make sense about the current system is the assumption that when the ILEC loses customers, it doesn't shed corresponding amounts of costs. In today's telecommunications market, there is no reason to think that landline customers who leave for wireless are ever coming back, so as the ILEC loses lines in service, its costs – and the amount of subsidies it receives – should be adjusted downwards as well. See Comments of Centennial Communications Corp., In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service (USF Fund "Cap" Proceeding), filed June 6, 2007). But evidently the notion that in today's market conditions, *they* might logically be entitled to *declining* subsidies does not seem to have occurred to the Small ILECs.

## CERTIFICATE OF SERVICE

I, Cathleen A. Schultz, hereby certify that a copy of the foregoing *Reply Comments of Centennial Communications Corp.* has been served upon the following by electronic mail or facsimile (as indicated below), this 31<sup>st</sup> day of August, 2007:

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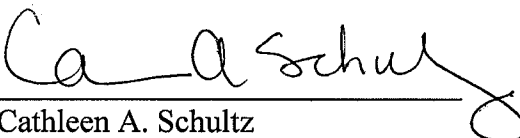
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